

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 USIA-15 PRS-01 SP-03 OMB-01 SWF-02 FEA-02

DRC-01 /180 W

----- 125876

R 121125Z JUN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5328

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

TREASURY DEPT WASHDC

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E.O. 11652: N/A

TAGS: EFIN, ETRD, GATT, EEC, IT

SUBJECT: MINISTER FOREIGN TRADE ON PRIOR IMPORT DEPOSIT SYSTEM

REF: ROME 6492

BEGIN UNCLASSIFIED

1. SUMMARY. IN JUNE 7 IL GLOBO INTERVIEW, MININSTER FOREIGN
TRADE MATTEOTTI STATED IMPORTS OF ITEMS AFFECTED BY PRIOR
IMPORT DEPOSITS HAD DROPPED 25 PERCENT, BUT THAT DECREASE
WAS IN SEMI-FINISHED PRODUCTS AND CAPITAL GOODS WHILE IMPORTS
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CONSUMER GOODS INCREASED. HE CRITICIZED OPERATION PRESENT

SYSTEM AND URGED REFORM BY REMOVING SEMI-FINISHED AND CAPITAL GOODS FROM DEPOSIT REQUIREMENTS, EXEMPTING GOODS IN TRANSIT, AND INCREASING DEPOSITS ON LUXURY CONSUMER ITEMS TO 100-200 PERCENT. HE CALLED FOR ADDITIONAL EXPORT FINANCE FUNDS.

2. IF MATTEOTTI'S CONCLUSIONS ARE CORRECT, PRIOR IMPORT DEPOSIT SYSTEM IS HAVING EFFECT QUITE DIFFERENT FROM THAT INTENDED BY GOI, E.E., FUTURE PRODUCTIVITY AND EXPORTS ENDANGERED WITHOUT RELIEVING CONSUMER DEMAND PRESSURES. END SUMMARY.

3. IN EXCLUSIVE JUNE 7 INTERVIEW IN LEADING ITALIAN FINANCIAL DAILY IL GLOBO, MINISTER FOREIGN TRADE MATTEOTTI STATED THAT IMPORTS OF ITEMS SUBJECT TO PRIOR DEPOSITS DROPPED 25 PERCENT DURING MAY. HE NOTED REDUCTION OCCURRED PRIMARILY IN SEMI-FINISHED PRODUCTS AND CAPITAL GOODS (SOME OF WHICH ARE ON LIST DESPITE GENERAL INTENTION TO EXEMPT THEM) BUT THAT IMPORTS CONSUMER GOODS, PRINCIPALLY MEAT, CONTINUED TO INCREASE. (BASIS FOR MATTEOTTI'S CALCULATION IS DIFFERENCE BETWEEN MONTHLY RATE OF AFFECTED IMPORTS DURING MAY, ESTIMATED AT \$400 MILLION ON BASIS OF PRIOR IMPORT DEPOSITS AT BANK OF ITALY, AND PRIOR ESTIMATE FOR MAY OF \$536 MILLION BASED ON PROJECTION 1974 TRENDS.)

4. MATTEOTTI ALSO STATED MINISTRY FOREIGN TRADE HAS RECEIVED REQUESTS TO DELETE TWO-THIRDS OF ITEMS SUBJECT TO PRIOR DEPOSITS FROM LIST. HE BELIEVES LIST SHOULD BE REVISED TO ELIMINATE SEMI-FINISHED PRODUCTS AND CAPITAL GOODS. MOREOVER, HE URGED INCREASE TO 100-200 PERCENT FOR PRIOR DEPOSITS ON LUXURY ITEMS. MATTEOTTI SAID SEVERAL GOVERNMENTS HAVE FORMALLY COMPLAINED ABOUT PRIOR IMPORT DEPOSIT SYSTEM AND THAT SOME EMBASSIES HAVE PROTESTED AGAINST APPLICATION PRIOR DEPOSITS TO GOODS IN TRANSIT. HE URGED EXEMPTION FOR GOODS IN TRANSIT IN ACCORDANCE WITH INTERNATIONAL PRACTICE, CITING US 1971 EXAMPLE. MATTEOTTI ALSO REPORTED HE HAD SENT TWO URGENT MESSAGES TO TREASURY MINISTER COLOMBO REQUESTING REVIEW OF LIST OF ITEMS SUBJECT TO PRIOR IMPORT DEPOSIT. HE DOES NOT FAVOR INDISCRIMINATE IMPORT RESTRICTIONS (SUCH AS PRESENT SYSTEM) AND SUGGESTS BEST WAY TO COPE WITH PRESENT SITUATION IS TO STIMULATE EXPORT EXPANSION, MOST NOTABLY BY PROVIDING ADDITIONAL EXPORT FINANCING FUNDS.

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5. IF MATTEOTTI'S CONCLUSIONS ARE CORRECT -- THEY SHOULD BE VIEWED WITH CAUTION SINCE MONTHLY AVERAGE BASIS CITED PARA (3) ABOVE ONLY VERY ROUGH ESTIMATE AND MOST GOODS WHICH ARRIVED IN MAY WERE ORDERED BEFORE IMPORT DEPOSIT SYSTEM ANNOUNCED -- THEN EFFECT OF PRIOR IMPORT DEPOSIT SYSTEM IS OPPOSITE OF WHAT GOI INTENDED. RATHER THAN RESTRICTING CONSUMER DEMAND, FUTURE

PRODUCTIVITY AND EXPORTS ARE ENDANGERED AS IMPORTS OF SEMI-FINISHED PRODUCTS AND CAPITAL GOOD DECLINE.

6. EMBASSY ALSO WONDERS ABOUT VALIDITY OF EXPORT EXPANSION AS CURE, GIVEN ANTICIPATED ECONOMIC SLOW DOWN DURING (AT LEAST) REST OF 1974 IN MOST OF ITALY'S MAJOR FOREIGN MARKETS, ESPECIALLY IF GOI UNABLE PUT TOGETHER STABILIZATION PROGRAM WHICH EFFECTIVELY REDUCES DOMESTIC CONSUMER DEMAND PRESSURES.

7. EMBASSY UNDERSTANDS NUMEROUS SMALL IMPORTERS OF US PRODUCTS UNABLE PROVIDE OR OBTAIN FUNDS FOR DEPOSITS ON GOODS ORDERED BEFORE MAY 7. EMBASSY ALSO UNDERSTANDS PRIOR DEPOSIT NOT SERIOUS OBSTACLE FOR MOST LARGE IMPORTERS, ESPECIALLY ITALIAN SUBSIDIARIES OF US MULTINATIONALS. CONSEQUENTLY, IMPORT OF PRIOR DEPOSITS ON AFFECTED GOODS IMPORTED FROM US UNEVEN, DEPENDING PRIMARILY UPON AVAILABILITY OF FINANCING RATHER THAN TYPE OF PRODUCT. BEAUDRY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, TRADE LAW, TRADE PROMOTION, IMPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME08097
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740151-0799
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740652/aaaabskw.tel
Line Count: 132
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: ROME 6492
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by izenbei0>; APPROVED <17 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MINISTER FOREIGN TRADE ON PRIOR IMPORT DEPOSIT SYSTEM
TAGS: EFIN, ETRD, IT, US, GATT, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005